CONGRESSIONAL BUDGET OFFICE
PAY-AS-YOU-GO ESTIMATE

April 14, 2000

S. 376
Open-Market Reorganization for the Betterment of International Telecommunications Act

As cleared by the Congress on March 9, 2000

SUMMARY

CBO estimates that S. 376, enacted as Public Law 106-180, contains provisions that will reduce offsetting receipts from the auction of licenses to use the electromagnetic spectrum. Specifically, the act will prohibit the auction of licenses for spectrum used to provide international or global satellite communications services. CBO estimates that implementing this provision will reduce offsetting receipts (a form of direct spending) from spectrum auctions by about $25 million over the 2000-2010 period by reducing the number and value of licenses auctioned through 2007, the year in which the Federal Communications Commission's (FCC's) auction authority expires under current law.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO's estimate of the impact of S. 376 on direct spending is shown in the following table. The act will not affect governmental receipts. Only the estimated changes in the current year, the budget year, and the succeeding four years are counted for pay-as-you-go purposes. The costs of this legislation fall within budget function 950 (undistributed offsetting receipts).

	By Fiscal Year, in Millions of Dollars										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
CHANGES IN DIRECT SPENDING											
Estimated Budget Authority	0	0	0	5	5	5	5	5	0	0	0
Estimated Outlays	0	0	0	5	5	5	5	5	0	0	0

BASIS OF ESTIMATE

The FCC is required to assign licenses on a competitive basis if there are mutually exclusive applications to use radio frequencies for commercial services. This act creates a new exception to that statutory directive. CBO expects that this new exclusion will affect relatively few licensing proceedings. The United States and other nations have long followed a policy of not auctioning spectrum used for international communications services. Thus far, the FCC has been successful in finding engineering solutions for interference problems involving these services, thereby avoiding the need for auctions. Such remedies may be less successful in the future, however, because of the rising demand for—and scarcity of—radio frequencies. According to officials at the FCC, the commission may have had to use auctions under prior law to resolve some mutually exclusive applications involving international services.

This act also may affect the value of certain licenses that are likely to be auctioned in the future. For example, some satellite licensees use frequencies located over the United States for international as well as domestic services because the satellite's "footprint" extends beyond the U.S. border. In order to auction such licenses in the future, the FCC will need to restrict the use of these frequencies to domestic services, which may limit the value of the satellite system to potential bidders. According to FCC officials, such restrictions are likely to apply to an auction of licenses for direct broadcast services (DBS) currently planned for fiscal year 2001 or 2002.

CBO estimates that proceeds from the upcoming auction of DBS licenses will be about 10 percent to 20 percent lower because of the market restrictions under this act, resulting in an estimated loss of receipts of about $5 million. We also assume that there was about a 5 percent chance that the FCC would have had to use auctions to resolve other mutually exclusive applications involving international satellites, and that proceeds from such auctions would have ranged from about $100 million to $700 million over the next seven years, resulting in an estimated loss of $20 million in receipts (5 percent of the midpoint estimate of $400 million). Hence, we estimate that the loss of receipts resulting from the implementation of this provision will total about $25 million over the next 10 years.

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